No. 13120

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

TOD C. FAULKNER,

Appellant,

vs.

JOHN T. GIBBS,

Appellee.

BRIEF FOR APPELLANT.

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Jurisdictional Statement.

This is the second appeal in the above-entitled suit for infringement of United States Letters Patent. The District Court of the United States for the Southern District of California, Central Division, had jurisdiction under 28 U. S. C. 1338. A final decision having now been entered in said District Court, this Court of Appeals has jurisdiction under 28 U. S. C. 1291.

This case originally came up to this Court on appeal from an interlocutory decision of the District Court holding certain claims valid and infringed and certain other claims not infringed. Said decision was affirmed by this Court in 170 F. 2d 34, 79 USPQ 158. (No appeal was taken by plaintiff as to the holding of non-infringement of some claims.) Certiorari was granted by the Supreme Court and after hearing had, the decision of this Court was affirmed in 338 U. S. 267.

Pursuant to the mandates of this Court and the Supreme Court, the District Court resumed jurisdiction of the case for the ascertainment of damages and rendered its final decision thereon. Final judgment was entered in the District Court on June 15, 1951. This appeal is prosecuted from said final judgment, the sole issues being the amount of said judgment and the award of additional attorneys fees to the Appellee.

Statement of the Case.

The patent in suit, No. 1,906,260, issued to Appellee on May 7, 1933, and now expired, covered an electrified Bingo game made up of a series of electrically connected individual playing units arranged in banks, and operable by separate players. Each such unit has a horizontal playing board with five rows of five holes therein, and an annunciator panel with five rows of five indicator lights thereon corresponding to the holes in said playing board. Each player rolls balls across the playing board of his playing unit, and when a ball goes through one of the holes, the indicator light corresponding to that hole is illuminated. The first player to light up five indicator lights in a row on his annunciator panel is the winner of the game and the same is then automatically shut off to prevent further play until the attendant reactivates the electric circuits. Appellee's game is known to the trade as Fascination.

The Appellee has enjoyed a substantial business for a number of years in licensing his Fascination games to operators in various amusement parks and beaches throughout the country. Gibbs' testimony [R. 22] is that during the life of his patent he granted 18 or 19 different licenses, although only ten such license agree-

ments have been submitted in evidence. These are physical Exhibits A-1 to A-10 now before this Court.

The amount of money which a competitive game of this type can earn depends upon the number of players which it can accommodate at one time, which in turn depends on the number of individual playing units connected together to form the game. In practice, the number of playing units per game can be varied between wide limits and of course the number of games in any given location can likewise be varied. Consequently, the total income of an installation depends directly upon the total number of individual playing units included in the installation.

In 1944 the Appellant built and operated at a single location in Long Beach, California under the name of Fawn, the two games which the Court decreed to be an infringement of the patent in suit. Said Fawn games each comprised a bank of sixteen individual playing units generally similar in function to the Gibbs units, the units in each bank being electrically connected to comprise a single competitive game. Appellant never operated more than said two games of 16 units each or a total of 32 player units.

The smallest number of individual playing units licensed in any of Appellee's said license agreements, Exhibits A-1 to A-10, was 48, and the largest number was 150 (except for the license in Long Beach, California, which was not limited as to number).

Four of the license agreements in evidence were for operations in Coney Island, one in Atlantic City, two in small beaches in New York and New Jersey, one covering several beaches in the New England States, and one for operations in Long Beach, California.

All but one of said agreements appear to have been negotiated in settlement of litigation or threatened litigation, and most of the agreements recite that the licensee is bound by injunctions previously or concurrently granted.

Only two of said license agreements were executed prior to the installation and operation of Appellant's Fawn games, and several were executed after this suit was started. Some of said license agreements provide that the licensee will buy the game units from Gibbs, others grant licenses on games already owned by the licensees, at least one provides that the defendant licensee conveys title in his game to Gibbs, and one allows the licensee to manufacture his own games.

Although some oral testimony was introduced concerning manufacturing profits allegedly lost by plaintiff and speculative operational profits allegedly made by Appellant from operating his infringing Fawn games, the Findings and Judgment of the Trial Court are based entirely on the "Reasonable Royalty" theory of damages. The Court found [Finding VI] that a reasonable royalty to be paid by Appellant was $3,000.00 per year, although under none of the licenses in evidence was this much average royalty paid. Total damages of $15,000.00 were therefore assessed against Appellant based on five years' operation of his Fawn games. The Trial Court expressly found that Appellee's alleged loss of manufacturing profits was not considered to be an element of damages [Finding VI].

Finding VII awards Appellee additional attorneys fees in the amount of $1,000.00. There is, however, no evi-

dence in the record showing the amount or value of legal services rendered to Appellee for proceedings in the Trial Court since the trial of this case on its merits.

There are thus two issues presented on this appeal, as follows:

1. Whether or not the Trial Court used the correct means for arriving at a "reasonable royalty" payable by defendant herein as damages, and

2. Whether or not the Court had the right to award additional attorneys fees to plaintiff in this supplemental proceeding and if so, whether or not the award of $1,000.00 without any specific evidence upon which to base said figure amounts to an abuse of discretion.

Specification of Errors.

1. The Court below erred in basing its estimate of a reasonable royalty on the alleged annual royalty paid by Appellee's licensee Loof for the two years 1948 and 1949, rather than on the true average royalty paid by Loof for the nine years covered by his agreement.

2. The Court erred in basing its estimate of a reasonable royalty on total annual royalties paid by Appellee's licensees instead of on the royalty per playing unit for the units included in said license agreements.

3. The Court erred in allowing any additional attorneys fees to Appellee.

4. The Court erred in ordering judgment against Appellant in the amount of $15,000.00 for damages and $1,000.00 attorneys fees.

ARGUMENT.

I.

A Reasonable Royalty Is That Royalty Which Is Negotiated Freely, and Not Under the Compulsion of Litigation or Merely to Coerce Others.

Long prior to the adoption by Congress of the "Reasonable Royalty" rule of damages, the Courts had adopted a similar rule as a convenient means for assessing a defendant's liability when older methods failed. Almost immediately, the corollary was established that where a plaintiff had, by the grant of licenses created an "Established Royalty," said licenses being freely entered into, and not oppressive or inconsistent, the royalty thus established would be *prima facie* evidence of what was reasonable under the circumstances and therefore suitable for use as a measure of damages in patent infringement suits.

One of the earliest Supreme Court cases stating this doctrine is that of *Birdsall et al. v. Coolidge,* 93 U. S. 64, decided in 1876. Mr. Justice Clifford, speaking for the Court, stated the rule at page 70 as follows:

> "Frequent cases arise where *proof of established royalty* furnishes a pretty safe guide both for the instructions of the Court and the finding of the jury. Reported cases of undoubted authority may be referred to which support that proposition; * * *"
>
> *"Evidence of an established royalty* will undoubtedly furnish the true measure of damages in an action at law * * *." (Emphasis added.)

An exception to the Established Royalty rule is stated in *Rude v. Westcott,* 130 U. S. 152, by Mr. Justice Field at page 160 as follows:

> "It is true Westcott threatened suit, and when *money is paid under threat of suit merely as the price of peace, it furnishes no evidence* of the amount or value of the real claim in dispute." (Emphasis added.)

And at page 164 as follows:

> "*It is clear* that a payment of any sum *in settlement of a claim for an alleged infringement can not be taken as a standard* to measure the value of the improvements patented, in determining the damages sustained by the owners of the patents in other cases of infringement. *Many considerations other than the value of the improvement patented may induce the payment in such cases.* The avoidance of the risk and expense of litigation will always be a potential motive for settlement. (Emphasis added.)
>
> "In order that a royalty may be accepted as a measure of damages against an infringer, *who is a stranger* to the license establishing it, *it must be paid or secured before the infringement complained of;* it must be paid *by such a number of persons* as to indicate a *general acquiescence in its reasonableness* by those who have occasion to use the invention; and *it must be uniform* at the places where the licenses are issued. Tested by these conditions, the sums paid in the instances mentioned, upon which the master relies, cannot be regarded as evidence of the value to the defendants of the invention patented." (Emphasis added.)

In the Ninth Circuit case of *Dunkley Co. v. Central California Canneries,* 7 F. 2d 972, Circuit Judge McCamant reiterated the above-quoted rule and amplified it with a full discussion of the subject of damages in patent cases.

> "The burden devolved on plaintiff to show that the use of the infringing machines brought the defendants an advantage and profit. It was also incumbent on plaintiff to furnish evidence from which the Master could determine the value in dollars of the advantage to the defendants of the infringing machine as compared with the Jones dipper. * * *
>
> "Where there is an *established regular price for a license to use a patented machine,* that price may be taken as a measure of damages against infringers. *Rude v. Westcott,* 130 U. S. 152. (Emphasis added.)
>
> * * * * * *
>
> "The royalty should be fixed in the light of the conditions which obtained *when the infringement took place.* It should be fixed at such sum *as the defendants would probably have consented to pay,* rather than dispense with the patented machine. *Page Machinery Company v. Dow, Jones and Co.,* 238 Fed. 369, 372." (Emphasis added.)

The last-quoted passage states the real essence of the established royalty rule and is firmly grounded in reason. Where an established royalty is used as the measure of damages, it obviously is not a true measure unless it is based on what the parties would have agreed to if they

had been dealing freely and not under economic compulsion. In line with this conception, the Courts have consistently followed a conservative practical approach to the question of damages in patent cases as illustrated by the following further quotation from the *Dunkley* case, at page 977:

> "When the Court is called upon to fix a royalty *it should be conservative* in determining the amount. *Consolidated Rubber Tire Co. v. Diamond Rubber Co.* (D. C.), 226 Fed. 455, 459. The amount named *should not be so high* as to preclude the use of the patented machine. *A. Macky Co. v. Garton Toy Co.* (D. C.), 277 Fed. 507, 511." (Emphasis added.)

The relevancy of the foregoing quotations to our present discussion is clearly apparent when we remember that all of the license agreements submitted by plaintiff herein which are material to the question of damages, were negotiated in settlement of litigation or threatened litigation against defendants and prospective defendants who had substantial investments in electrified Bingo games of the Gibbs type. As testified by Appellee, the cost of a bank of playing units forming a complete game is considerable. That the licensees were fully cognizant of their delicate position is illustrated by the fact that most of Appellee's said license agreements recited previous litigation and bound the licensees to outstanding injunctions, making them subject to contempt proceedings in case of default. This phase of the case will be further developed in the discussion of our subsequent points.

II.

Analysis of Appellee's License Agreements Exhibits A-1 to A-9.

Since the parties are in agreement that the most practical approach to the issue of damages in this case is application of the reasonable royalty rule, the correct interpretation of Appellee's license agreements becomes the real crux of the problem. We will, therefore discuss these agreements rather fully to bring out their salient features. Although these agreements do not show an "established" royalty, it is believed that when properly interpreted they can form a basis for equitably assessing the damages due Appellee herein.

The Coney Island Licenses.

Exhibits A-1, A-2, A-4 and A-5.

All of these licenses cover locations in Coney Island, New York. Since these agreements have substantially the same terms, and license the same number of individual playing units, they are collectively referred to as the Coney Island Licenses.

The first of the Coney Island licenses, Exhibit A-1, dated June 9, 1936, was granted to T. Z. R. Amusement Corp. in settlement of the case of *Gibbs v. T. Z. R.,* D. C. N. Y. 14 Fed Supp. 957. This agreement is one of the two licenses in evidence executed prior to Appellant's operation of his Fawn games.

The T. Z. R. agreement provided (pars. 2 and 3) for a total payment of $4,000.00 for one year's past infringement and one year's license, *i. e.,* an average royalty of $2,000.00 per year. After the first year, the royalty was five per cent of the gross, but later became a flat $2,000.00

per year. [R. 61.] The licensed game comprised 50 individual playing units, and on the basis of a total annual royalty of $2,000.00 the royalty per playing unit was $40.00 per year, it being further provided (par. 1) that *no playing units in excess of 50 could be operated* by Licensee. Paragraph 22 specified that Licensor did not waive any rights under the T. Z. R. decree and on any default by Licensee the provisions of said decree could be enforced.

In 1939 the T. Z. R. license was taken over by Eddie's Amusement Corp. and on May 6, 1946, was modified by agreement Exhibit A-2 in evidence. Eddie's Amusement Corp. as successor of T. Z. R. agreed (par 3) to be bound by said decree against T. Z. R. This modification agreement provided for a total royalty of $2,000.00 per year. The number of playing units being 50, the annual royalty per playing unit remained $40.00.

The agreement Exhibit A-2 with Eddie's was renewed in 1947 by agreement Exhibit A-4, the number of playing units, the total royalty, and the per unit royalty remaining the same. Likewise, paragraphs 3 and 4 continued to make Licensee subject to the T. Z. R. injunction.

Exhibit A-5, the fourth of the Coney Island licenses, was issued to M. R. Amusement Co., Inc., a Brooklyn corporation. This agreement licensed 50 playing units for a total annual royalty of $2,000.00, so that the royalty per playing unit was $40.00 per year. This agreement recites in paragraphs 4 and 5 that the licensee is bound by the injunction in a former case (presumptively the *T. Z. R.* case), and that on default the licensee is subject to contempt proceedings.

Summarizing the four Coney Island license agreements, Exhibits A-1, A-2, A-4 and A-5, it is seen that they

apply to only two locations and are uniform in providing for an annual total royalty of $2,000.00 for games comprising 50 playing units each, so that the average royalty per playing unit is $40.00 per year. All of these agreements were made in settlement of litigation or proposed litigation and only the first, Exhibit A-1 was prior in time to appellant's operations.

Atlantic City License.

License agreement Exhibit A-3 was executed with Boardwalk Amusement Corporation of Atlantic City, on January 11, 1947, after this suit was started. The agreement licenses the operation of 60 playing units made according to plaintiff's patent, and (par. 13) licensee is released of all past claims for infringement.

The average royalty paid by Boardwalk Corporation for two years of past infringement plus three years license was $2,550.00 per year, making the average royalty rate per playing unit $42.50 per year. This license agreement is very similar to the Coney Island agreements.

Miscellaneous License Agreements.

Exhibits A-6, A-7 and A-8 are not material to our present problem and will consequently be given only brief mention.

Exhibit A-6 purports to be a master agreement giving the Licensee the right to grant sublicenses under the patent. The form of sublicense attached to Exhibit A-6 provides that the licenses *shall only be for a specified number of playing units,* providing however, that the number can be increased by increasing the total royalty.

Only one sublicense was granted under this master agreement [R. 63-64], and it is not in evidence.

Exhibits A-7 and A-8 are licenses granted in 1947 and 1946 respectively for operations in South Beach, Staten Island, New York, and Keansburg Beach, New Jersey, respectively. These installations had 50 and 48 units respectively. Since the seasons at these two beaches were unusually short, they are not comparable to Appellant's operation of his Fawn games. As in Exhibit A-1, how-royalty rates.

New England License.

License agreement Exhibit A-9 made with William O'Brien, on December 5, 1940, is the only license, other than Exhibit A-1, which was made prior to Appellant's operation of his Fawn games. As in Exhibit A-1, however, this licensee had been infringing the Gibbs patent prior to negotiation of the license.

This agreement gives the Licensee the right to operate in three different locations in New England, and also in Florida but Gibbs testified [R. 65] that O'Brien never operated in Florida. Paragraph 3 provides that the Licensee can only operate three games, but that said games can comprise as many units as desired. It is noted however, that the two games specifically referred to in the agreement comprised 50 playing units, so we assume that the third game also comprised 50 playing units, making a total of 150 playing units operated under the agreement.

The agreement ran until May 1, 1950, *i. e.,* for nine seasons following the execution of the agreement. Since O'Brien infringed one season prior to acquiring the license, the agreement covers a total of ten years operation, *i. e.,* one year as an infringer and nine years as a licensee.

As a total consideration for the right to operate said three locations, O'Brien paid $5,000.00 plus nine annual payments of $3,000.00, making a total of $32,000.00. O'Brien also leased 50 playing units from Gibbs for a total price of $4,000.00. Strictly speaking, this latter payment should not be considered as part of the royalty, but we make no issue of it. With said $4,000.00 included, the total royalty paid by O'Brien for his ten years of operations was $36,000.00, making the annual royalty $3,600.00 for the 150 units in his three locations. On this basis, the royalty was $1,200.00 per year for each location of 50 units, or $24.00 per unit per year.

Summarizing the foregoing license agreements, Exhibits A-1 to A-9, we see that they do not prove an established royalty. Of the group, only the New England license, Exhibit A-9, is sufficiently comparable to the Loof Long Beach agreement, Exhibit A-10, to be helpful in ascertaining a reasonable royalty herein. As will be brought out later, the per unit royalty of Exhibit A-9 is almost the same as that of the Loof license now to be discussed. Consequently, these two agreements together tend to create what might be called an established royalty.

III.

Analysis of the Loof License Agreement, Exhibit A-10.

Of the ten license agreements placed in evidence by Appellee this present agreement, A-10, is the most pertinent, since it is for a location in the city of Appellant's operations, to-wit, Long Beach, California. However, this agreement like the others in evidence suffers from evidentiary weaknesses since:

(1) It was made long (about two years) after appellant started his operations, and

(2) It was a settlement of an infringement suit then pending.

As the courts have consistently said, these conditions often prevent such agreements from being used to show an established or reasonable royalty. At best they must be carefully scrutinized and analyzed before they can be used as an aid in assessing damages.

These admonitions of the courts are particularly applicable to the Loof agreement, since it was admittedly made with this present litigation in mind, and is a clear attempt to set up a fictitious royalty rate which could later be used against others, as attempted here, to "establish" an inflated royalty as a measure of damage.

However, since we believe that when properly interpreted in the light of *all available facts,* the Loof agreement can be helpful in arriving at a reasonable royalty in this case, we will discuss it in detail.

The Loof agreement is dated July 25, 1946, and recites that on February 15, 1946, Gibbs sued Loof and his associates for infringement of the patent here in suit, and that the parties wish to settle said litigation.

Paragraph 1 provides for a consent decree of validity and infringement, and Paragraph 2 grants to Loof an exclusive license to operate the Gibbs games in two locations in the City of Long Beach without limitation as to the number of playing units used. Paragraph 3 releases the licensees from all claims for past infringement, and Paragraph 4 requires Gibbs to take appropriate means to prevent any apparatus of his manufacture being used in the City of Long Beach.

Paragraph 5 provides for a down payment to Gibbs of $10,000.00 (of which $1,500.00 is earmarked by Paragraph 6 for future litigation), plus an additional $6,000.00 payable in equal installments on May 1, 1948 and 1949, *i. e.,* a total of $14,500.00 was payable to Gibbs in full compensation for past infringing operations and a license for the four remaining years of the patent.

Nothing is said in the agreement as to how long Loof had infringed the Gibbs patent prior to execution of the agreement. Gibbs testified in his deposition [R. 66] that he only "saw" infringement in 1945, although Loof "may have operated the year before." This would indicate two years of past infringement.

However, the fact of the matter is that Loof infringed the Gibbs patent for *five years* before the settlement agreement Exhibit A-10 was executed. Douglas Wiser, a partner of Loof, testified at the original trial of this action [R. 84, 85 of record in appeal No. 11,667] that the Loof Lite-a-Line games were built in 1940 and were first operated in Long Beach in 1941, *five years* before execution of Exhibit A-10.

It is therefore apparent that the $14,500.00 paid by Loof under Paragraph 5 of Exhibit A-10 was full com-

pensation to Gibbs (reasonable royalty) for Loof's nine years of operations—five years before the execution of the agreement and four years thereafter. Dividing said total royalty of $14,500.00 by said nine years of operations, we find that the average royalty paid by Loof was in fact only $1,611.00 per year.

It is apparent therefore that the statement in Paragraph 5 of the Loof agreement that the payments of $3,000.00 payable in 1948 and 1949 represented the royalties for those years, is contrary to the fact, for there is nothing in the record to show that the license was any more valuable during those last two years than it was before.

If we take the statement in Paragraph 5 at its face value we have an absurdity, since then the only compensation paid for the first seven years of Loof's operations was the $8,500.00 down payment, or an average of $1,214.00 per year. Why should the license be worth $1214.00 per year for the first seven years, and then $3,000.00 per year for the last two years thereof? It is quite apparent therefore that the wording of Paragraph 5 does not correspond to the facts and must be disregarded.

In order to use the Loof license as a basis for determining the "reasonable royalty" that Appellant should pay as damage herein, we must, *if we are to follow the facts* rather than the self-serving statements of the Loof agreement, use the factual figure of $1,611.00 above-mentioned as the *established* annual royalty, rather than the fictitious $3,000.00 figure urged by Appellee and used by the Trial Court.

For the five and one-half years of Appellant's infringement this would, without more, fix the damages at

5.5 x $1,611.00 or $8,861.00. *But this still is only a part of the true picture.* Upon examining further we see that Appellant only operated *one* establishment whereas Loof operated two, and Appellant only operated *32* playing units, whereas Loof under his license operated 64.

The value of a license obviously depends upon the potential income possible from exercising that license. Just as obviously the potential income possible from one of the games in question depends upon the number of customers who can play it at the same time, *i. e.,* the number of playing units in operation. Therefore in any such operation, the reasonable value of the "right to operate," *i. e.,* the reasonable royalty to be charged for such operation, must be dependent on the number of playing units in the given installation.

Assuming that Loof's royalty of $1,611.00 per year for the operation of 64 units was reasonable—then the most that Appellant should pay as a "reasonable royalty" for the operation of his 32 units is *one-half* of Loof's royalty, or $806.00 per year. For five and one-half years this totals $4,433.00.

Using the unit royalty approach applied in our discussion of the eastern licenses we arrive at the same amount for the damages, but by a different route. Dividing Loof's annual royalty of $1,611.00 by 64, we get a royalty of $25.00 per unit per year. A reasonable annual royalty for Appellant then would be 32 x 25 or $800.00, which multiplied by his five and one-half years of operations gives $4,400.00 as the total damages payable herein. (The differences in the results obtained by the two methods of computation are because fractions have been ignored.)

None of the other provisions of the Loof agreement deal with the matter of royalties, but it is of interest to note that in Paragraph 6 of the agreement, Gibbs agreed to immediately start legal proceedings against Tod C. Faulkner, the Appellant herein, and Loof agreed to pay up to $10,000.00 towards the cost of said suit. As a result of that agreement, this suit was brought, and the evidence is, that Loof, in accordance with his agreement, paid said $10,000.00 toward the cost thereof.

IV.

There Is No Evidence to Support the Trial Court's Finding That $3,000.00 Per Year Is a Reasonable Royalty.

From the foregoing summary and analysis of the ten license agreements offered in evidence by Appellee to establish a reasonable royalty, it is seen that not one of said agreements substantiates the Trial Court's finding that $3,000.00 per year is a reasonable royalty to be paid by Appellant herein.

As both Appellee and his counsel have repeatedly said, the value of any particular location for competitive games of the type involved here depends upon the amount of business that can be done, *i. e.,* the number of customers available. The amount of income that can be derived from those customers, and therefore the amount of royalty which the operator can afford to pay, depends upon the number of customers which his game can handle per hour, *i. e.,* the number of individual playing units which

the operator has available for use. Consequently, more playing units mean more customers handled, which means more income, which means more royalty can be paid.

Obviously therefore, total royalty payable under any license agreement must be related to, and arrived at on the basis of, the number of playing units involved. This would seem to be a self-evident fact, so that in each case, whether the license agreement mentions the number of units or not, that factor of necessity had to be considered by the parties in agreeing on the total royalty for a given location.

The Coney Island licenses all had an average annual royalty of $2,000.00 for 50 playing units, or a per unit royalty of $40.00 per year.

The Atlantic City license had an average annual royalty of $2,550.00 for 60 playing units, or a per unit royalty of $42.50 per year.

The licenses for South Beach and Keansburgh Beach had average annual royalties less than $2,000.00 for 50 and 48 units respectively with per unit royalties under $30.00 per year.

Under the New England license agreement three separate locations having a total of 150 playing units were licensed for $3,600.00 per year, $1,200.00 per location per year or $24.00 per unit.

The Loof Long Beach license had an average annual royalty of $1,611.00 or a per unit royalty of $25.00 per year.

Since there is not one shred of documentary evidence to support the Trial Court's finding, it is assumed that the Court must have been misled by the confusing language in Paragraph 5 of the Loof agreement, since this is the only one of the license agreements that even purports to establish a royalty of $3,000.00 per year. But, as previously discussed, this language is not consistent with the facts and cannot be taken at its face value.

If the Loof agreement is taken at its face value, then it is clearly collusive and entitled to no weight whatsoever. The Loof agreement on its face is just like a $100.00 price tag on an article sold for $50.00. Both the dealer and the customer know it is merely a $50.00 article. The price tag is only for the benefit of the uninitiated or the unwary.

But even if we took the Loof agreement at its face value, it still is not evidence that $3,000.00 is a reasonable annual royalty for Appellant, for Appellant only operated *half* as many units in *half* as many locations as Loof. So even on this basis, the damages could not exceed $1,500.00 per year, or a total of $8,250.00 for the entire five and one-half years.

But, as previously shown, the Loof agreement cannot be taken at its face value. It can only be considered as evidence *of what the parties did,* not what they said. On this basis, the correct measure of damages, as computed earlier herein, is $806.00 per year, making a total of $4,433.00 for five and one-half years. Any finding in excess of this amount is clearly erroneous.

V.

The Findings of the Trial Court Are Not Entitled to the Usual Presumption of Validity Since All of the Evidence Before the Court Was Documentary.

Since the only testimony in this case was by deposition, and the only real evidence consists of appellee's license agreements, Exhibits A-1 to A-10, no presumption of validity attaches to the findings of the Trial Court. As the record shows, the hearing before the Court merely consisted of short statements of counsel and the introduction of exhibits. Consequently this Court is in as good a position as the Trial Court to consider the evidence. And in view of the manifest error of the Trial Court, it is thought that this Court will wish to consider all the evidence strictly on its merits.

The following cases clearly state the majority rule consistently followed by this circuit with respect to Rule 52A. In *Carter Oil Company v. McQuigg* (C. C. A. 7), 112 F. 2d 275, Judge Evans stated:

> "Where the question is one of veracity, it is clear that the Appellate Court should give controlling weight to the trier of fact who saw and heard the witnesses. This is well established. Where the testimony consists of documentary evidence and depositions, a master is in no better position to determine an issue of fact than a reviewing court. The District Court's findings on such evidence are likewise subject to free review, unaffected by presumptions which ordinarily accompany their findings on controverted issues."

This Court in the case of *Equitable Life Assurance Society of the United States v. Irelan*, 123 F. 2d 462, clearly stated the rule as follows:

> "Since all testimony bearing on the circumstances antecedent to and surrounding her death was by deposition, the finding of accidental death, while it is justly entitled to consideration, has not the weight we would otherwise be obliged to concede to it. This court is in as good a position as the trial court was to appraise the evidence, and we have the burden of doing that. * * * As is well known, in the Federal courts, where the testimony in equity or admiralty cases is by depositions, a reviewing court gives slight weight to the findings."

Likewise in the case of *Stuart Oxygen Co., Ltd. v. Josephian*, 162 F. 2d 857, 74 U. S. P. Q. 117, Judge Bone, speaking for the Court, and quoting from the case of *Nichol, Inc. v. Schick Dry Shaver*, 98 F. 2d 511, 38 U. S. P. Q. 510, stated:

> "The testimony before the trial judge revolved around the exhibits (full size commercial units) and embraced a discussion of the meaning of the term stability as used in the claims in the patent, the absence or presence of prior art, and the Appellee's charge that Appellant deliberately copied his device. The terms of the patent and the respective devices of the parties are also before us for our inspection. The facts are clear and undisputed and the question of infringement in this case can be determined by comparison of structures and is a question of law. Therefore, this Court will examine for itself the device of Appellant and determine as a matter of law whether it infringes the patent of Appellee. * * *"

VI.

There Is No Basis in the Record for the Allowance Made to Appellee of Additional Attorneys Fees in This Case.

(a) The Trial Court did not reserve the right at the close of the trial on the merits to award additional attorney's fees;

(b) No evidence was introduced concerning the extent or value of the legal services performed for Appellant in the Trial Court subsequent to the trial of the case.

(a) In the recent case of *Laufenberg, Inc. v. Goldblatt Bros., Inc.* (C. A. 7), 187 F. 2d 823, 89 U. S. P. Q. 5, the Seventh Circuit Court of Appeals ruled squarely on the right of the Trial Court to award attorney's fees upon remand of an appealed case and held that unless the Trial Court expressly reserved the right at the close of the case in chief to award attorney's fees, it lost that right. Here we have a stronger case than the *Laufenberg* case since the Trial Court by the grant of attorney's fees at the end of the trial without reservation, waived its right to grant additional fees later.

In the *Laufenberg* case, the Court of Appeals said:

> "We think the Trial Court was correct in holding that under the circumstances of this case, it had no jurisdiction to award attorneys' fees at the late date when defendant made its motion therefor."
>
> * * * * * * * *
>
> "We hold that the statute means that if an award of attorneys fees is to be made by the Trial Court, the Judge should do so either at the time of the

> entry of judgment or specifically reserve jurisdiction in such judgment to do so at some reasonable date after the time for appeal has expired, if in fact no appeal is taken, or in case of appeal at such reasonable time after all such appellate action has been terminated and the mandate filed in the Trial Court."

In the lower court the Appellee sought an award of attorneys' fees to cover his costs on the previous appeal to this Court and the Supreme Court, but Judge Yankwich ruled against him as follows [R. 110]:

> "The Court: I couldn't fix anything for the Supreme Court or Court of Appeals. So if entitled to anything, it would be as to anything you did since the appeal came down. It (the statute) says it is merely for the trial of the action."

It is submitted that under the statute and the law as enunciated by the Seventh Circuit, the further award by the Trial Court of attorneys' fees to Appellee for this proceeding was erroneous and should be reversed.

(b) Even if the Trial Court had reserved authority to award additional attorneys' fees to cover the present proceedings in this case, this part of the judgment [Par. VIII, R. 11] should be set aside since there is no sufficient finding to support it. The only finding by the Court on this phase of the case is No. VII [R. 7] stating that "the Court now finds that the further sum of $1,000.00 should be allowed as additional attorneys' fees, which sum is reasonable and nominal in view of the nature and extent of the litigation." As the Court itself remarked [R. 110] it could not allow any attorneys' fees for proceedings had in the Court of Appeals or the Supreme Court, but

such is the inference from the latter part of Finding No. VII, speaking of the "nature and extent of the litigation."

In any event, there is no evidence whatsoever in the record substantiating the award of $1,000.00, or any other *specific amount,* for further proceedings *had in the Trial Court* subsequent to the main trial of the case. There is no evidence in the record as to how much work has been done *in the Trial Court,* or what its value is. Consequently the award should be reversed.

In *Dubil v. Rayford Camp and Company,* (C. A. 9), 184 F. 2d 899, 87 U. S. P. Q. 143, this Court stated as follows:

> "The Court below has not made plain precisely what was the basis of its conclusion in this regard. It must do so.
>
> "As we have just said, the basis on which attorneys' fees are to be awarded must be stated clearly. Otherwise, it becomes the duty of the reviewing Court to set the award aside. It is not the duty of the reviewing Court to interfere with the exercise of the discretionary power confided to the Trial Courts by Congress to award attorneys' fees in proper cases, except where there is an abuse of discretion amounting to caprice or an erroneous conception of law on the part of the Trial Judge."

The foregoing citation would seem to be a complete answer to the award made in this case. It should be vacated.

Conclusion.

1. The judgment for $15,000.00 damages should be reversed.

2. Judgment for damages should be entered in favor of Appellee in the amount of $4,433.00.

3. The judgment for attorneys' fees in favor of Appellee should be reversed.

4. Costs on this appeal should be awarded to Appellant.

Respectfully submitted,

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